

The Value Of Optimizing Payments

A MineralTree Topic Paper



approval and scheduling. However, there is still more value that can be extracted from effective accounts payable management by optimizing how distributions are made to suppliers. This can be accomplished with payment automation, which is a distinct, often missed, component of accounts payable.

Unlocking The Value Of Optimizing Payment Methods Through Payment Automation

Historically, accounts payable assessments and subsequent automation initiatives have not given adequate consideration to the type of payment method chosen for disbursements. This is evident given the following results from the 2016 AFP Electronics Payments Survey: an overwhelming majority of organizations (94 percent) continue to use checks to pay their major business suppliers. There are meaningful differences in the costs and risk exposures associated with a given payment method, whether a payment is made by a check or some form of electronic payment. This is puzzling given that on an annual basis, companies waste \$550 billion on inefficiencies associated with payments.

Despite great advances in the availability of data and the functionality of cost-effective payment automation solutions, most companies still face issues when making payments. The following issues, which are eliminated or mitigated through payment automation, include:

- Payment methods chosen are not cost-effective
- Different processes for checks, ACH payments, wire transfers, and credit cards
- Payment controls are difficult to monitor and enforce
- Payment risk exposures that are unchecked or unknown

Payment Costs By Disbursement Type

The 2015 AFP Payment Cost Benchmarking Survey cited the following the costs of disbursements by payment type.

Payment Type	Best Estimated Median Cost
Paper Check	\$3.00
ACH	\$0.56
Wire Transfer	\$14.42
Purchase Card (Procurement, T&E, and Virtual Cards)	\$1.00-\$1.99

Payment Risk By Disbursement Type

The following chart from the 2016 AFP Payments Fraud and Control Survey offers some insight into the trends in payments fraud. It is clear that there are payment risks associated with each type of payment.

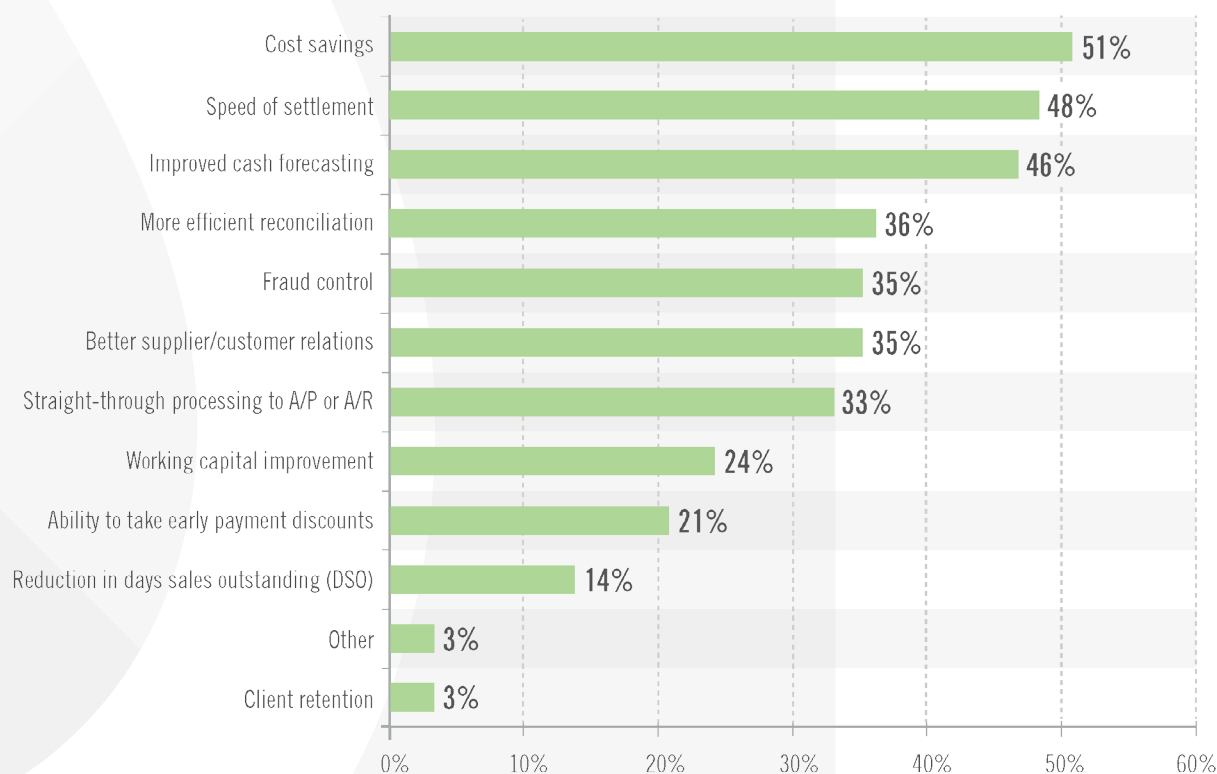
Comparing B2B Payment Method Risk Exposures

	Paper Checks	ACH (US)	Wire Transfers	Procurement/Virtual /Credit Cards
Also Known As	<ul style="list-style-type: none"> • Paper checks • Bank draft 	<ul style="list-style-type: none"> • Automated clearing house • Direct deposit • EFT • Electronic funds transfer 	<ul style="list-style-type: none"> • Credit transfer • SWIFT • FedWire 	<ul style="list-style-type: none"> • Debit card • Ghost card • Prepaid card • T&E card
Internal Exposures	<ul style="list-style-type: none"> • Employee alters bank account information • Exposure exists for each employee involved in entering or approving checks in addition to anyone who manages supplier information • Fraud protection services such as positive pay not administered correctly • Duplicate check issued • Manual workflow causes delay that results in missed discounts 	<ul style="list-style-type: none"> • Employee alters bank account information • Exposure exists for each employee involved in entering or approving check payments in addition to anyone who manages supplier information • Manual workflow causes delay that results in missed discounts 	<ul style="list-style-type: none"> • Employee alters bank account information • An exposure exists for each employee involved in entering or approving check payments in addition to who manages supplier information • Manual workflow causes delay that results in missed discounts 	<ul style="list-style-type: none"> • Employee Misuse • Embezzlement
External Exposures	<ul style="list-style-type: none"> • Altered Payee name and/or amounts on issued checks • Counterfeit checks 	<ul style="list-style-type: none"> • Bank Account Hijacking • Unauthorized ACH Debits • Reverse Phishing for Bank Account information 	<ul style="list-style-type: none"> • Bank Account Hijacking • Reverse Phishing for Bank Account information 	<ul style="list-style-type: none"> • Data Lost or stolen cards • Data breach at supplier storing card information • Identify theft of card holders

Defining Your Payments Framework: Centralize, Optimize, Control

Companies that optimize payment methods choose their payment types based on variables such as cost, dollar amount, customer, location of customer (where the money is going), and/or the relevant currency. The cost of a disbursement can vary significantly based on the type of payment method. In deciding a on payment type, the initial consideration is often between a check and an electronic payment (ACH, Wire, Card Payment). The following graph, courtesy of the 2015 AFP Payments Cost Benchmarking Survey, illustrates the benefits that are realized when moving from a check to an electronic payment, and the specific benefits companies have actually realized in doing so:

Benefits Gained by Sending or Receiving Electronic Payments (ACH, Cards, Wires) (Percent of Organizations)



Source: 2015 AFP Payments Cost Benchmarking Survey

This chart indicates that all disbursements should be made by electronic payment methods, right? If only it were that easy. Costs associated with changing payment methods may include creating and re-engineering processes, training costs, and technology upgrades. Vendors may insist on receiving payments by checks or place high value on the payment remittance information provided with checks. Typically, detailed remittance information is not easily associated with an electronic payment. However, some payment automation solutions

simplify this process, ensuring vendors receive detailed remittance information for every invoice regardless of payment method.

If a supplier agrees to accept an electronic payment, an ACH is often their preferred method for low dollar payments. Suppliers may require a wire transfer for high dollar payments, when a payment is unexpected and/or the supplier wants the increased visibility/traceability associated with a wire.

There are benefits to making a payment via a virtual or corporate credit card. Suppliers who accept payment via card already acknowledge and understand that they bear the cost of receiving a card payment. Organizations processing vendor payments by card improve workflow, automate journal entries, earn rebates or rewards, improve controls, and can earn volume discounts when monthly spend thresholds are met. Often, organizations do not have time to investigate whether a vendor will accept payment via card so paper checks remain the payment method. However, payment automation solutions offer vendor enrollment and onboarding services that are typically included in the cost of the product.

Additionally, organizations can provide incentives to vendors who accept cards by negotiating favorable payment terms. Vendors want faster payments so organizations may offer to pay an invoice within 5 days if the vendor accepts a card.

On the surface, selecting the right payment method and supporting multiple payment types may seem complicated. But payment automation solutions actually make life much easier for companies that have manual payments processes, involve communication between multiple internal and external parties, and/or share information via disparate systems that do not communicate well with each other.

There are solution providers that will work with your suppliers to onboard them and get them set up to accept virtual card payments that will provide rebates. Companies that leverage virtual cards on average, earn \$500 for every million dollars in AP spend. That means that companies with very significant AP spend can earn enough so that making payments actually makes them money.

Living The Payments Dream

Best-in-class accounts payable management requires a company to optimize how payments are made to suppliers. There are specific costs and risks associated with each payment type (check or electronic) and specific method of payment (paper check, ACH, wire, credit card, virtual card, purchase card). Fortunately, those costs and risks can be reduced and effectively managed by a payment solution provider. Companies need to align people, process and technology on all fronts to optimize the last mile of accounts payable, the “how” of payments. Accounts payable automation solutions that include payment automation empower companies of all sizes to have a best-in-class accounts payable function that impacts the bottom line and improves productivity across the enterprise.

Take The Next Step

For more information about how MineralTree can help your business streamline the payment process, contact us today at 617.299.3399 or email info@mineraltree.com.